

**COUNTY OF SAN LUIS OBISPO BOARD OF SUPERVISORS
AGENDA ITEM TRANSMITTAL**

(1) DEPARTMENT Administrative Office	(2) MEETING DATE 1/28/2014	(3) CONTACT/PHONE Nikki J. Schmidt 805/781-5496	
(4) SUBJECT Request to approve Amendment No. 2 to the Preventive Health Endowment Agreement with the San Luis Obispo County Community Foundation, Inc. allowing a third party investment management fee. All Districts.			
(5) RECOMMENDED ACTION It is recommended that the Board approve Amendment No. 2 to the Agreement to the Preventive Health Endowment Agreement with the San Luis Obispo County Community Foundation, Inc.			
(6) FUNDING SOURCE(S) N/A	(7) CURRENT YEAR FINANCIAL IMPACT \$0.00	(8) ANNUAL FINANCIAL IMPACT \$0.00	(9) BUDGETED? No
(10) AGENDA PLACEMENT <input checked="" type="checkbox"/> Consent <input type="checkbox"/> Presentation <input type="checkbox"/> Hearing (Time Est. ____) <input type="checkbox"/> Board Business (Time Est. ____)			
(11) EXECUTED DOCUMENTS <input type="checkbox"/> Resolutions <input checked="" type="checkbox"/> Contracts <input type="checkbox"/> Ordinances <input type="checkbox"/> N/A			
(12) OUTLINE AGREEMENT REQUISITION NUMBER (OAR) N/A		(13) BUDGET ADJUSTMENT REQUIRED? BAR ID Number: N/A <input type="checkbox"/> 4/5 Vote Required <input checked="" type="checkbox"/> N/A	
(14) LOCATION MAP N/A	(15) BUSINESS IMPACT STATEMENT? No	(16) AGENDA ITEM HISTORY <input checked="" type="checkbox"/> N/A Date: _____	
(17) ADMINISTRATIVE OFFICE REVIEW			
(18) SUPERVISOR DISTRICT(S) All Districts -			

County of San Luis Obispo



TO: Board of Supervisors

FROM: Nikki J. Schmidt, Administrative Office

DATE: 1/28/2014

SUBJECT: Request to approve Amendment No. 2 to the Preventive Health Endowment Agreement with the San Luis Obispo County Community Foundation, Inc. allowing a third party investment management fee. All Districts.

RECOMMENDATION

It is recommended that the Board approve Amendment No. 2 to the Agreement to the Preventive Health Endowment Agreement with the San Luis Obispo County Community Foundation, Inc.

DISCUSSION

In 1998, the tobacco industry settled a lawsuit that had been brought by multiple state and local governments. The settlement provides for payments of \$246 billion over 25 years. The County, under the agreed upon statewide formula, was estimated to receive \$2.5 million annually from the settlement. Subsequent to receiving that allocation, the Board adopted a policy to expend these funds for health care programs in the County. As part of the FY 2000-01 budget process, the Board created the Preventive Health Grant Program, funded at \$1 million, and formed a review committee was to advise the County on best how to allocate those funds.

The review committee recommended an endowment be established with the first year funding of \$1 million. The Board voted to create an endowment with the San Luis Obispo County Community Foundation (Community Foundation) on December 5, 2000. The agreement with the Community Foundation to manage the Preventive Health Endowment was approved by the Board on June 19, 2001.

The original endowment was funded with the \$1 million referred to above. At the time of the original agreement, it was the County's intent to earmark \$1 million annually of tobacco settlement funds for preventive health grant programs. A key provision of the endowment agreement was that the County would transfer 25% of the monies allocated by the Board to the Preventive Health Grant Program to the endowment for five years. After which time, the Community Foundation would begin to distribute funds from the earnings for community based preventive health programs and services. The first annual payment (\$250,000) was made in September 2001.

However, in March of 2002, the voters of the County approved Measure A which limited how tobacco settlement dollars could be allocated. Beginning in July 2002, preventive health programs were limited to 15% (estimated to be \$375,000) of the total amount of settlement dollars the County received. The County could have continued to transfer 25% (\$93,750) but that would have reduced the amount of grant funds available to meet needs out in the community. It was recommended by staff that the County "pre-fund" the balance of the endowment contractual obligation. On June 18, 2002, the Board approved Amendment No. 1 to the original endowment agreement by appropriating \$897,350 in unanticipated tobacco settlement funds thus fulfilling the County's obligation to fund the endowment up to approximately \$2.25 million. At the time of the creation of the Preventive Health Endowment, the Community Foundation's investments were made through mutual funds where the fees were embedded in the market value of the investments. They were able to manage and invest the funds in-house charging only a 1% annual administrative fee. As the funds being managed grew, they moved to more of an institutional format, partnering with UBS Financial Services, Inc. to provide those services. This partnership resulted in the need to charge their endowment partners a third party investment management fee. As new endowments become part of the Community Foundation, this investment management fee is included.

The Community Foundation has worked to amend their "older" endowment agreements to include this investment management fee. The County's Preventive Health Grant Endowment only contains the provision for the annual 1% administrative fee. Since 2005, the Community Foundation has split that 1% between administrative and investment costs. It is no longer feasible for the Community Foundation to continue to operate in this fashion. The administrative fee is used to offset the cost of administering the endowment's preventive grant program including identifying and monitoring grant recipients as well as hand-on technical assistance, guidance on improving quality of programs and leveraging of resources.

The Community Foundation is requesting that the Preventive Health Endowment agreement be revised to include a third party investment management fee of up to 1% in addition to the 1% administrative fee. Under this Amendment, the administrative and investment fees could reach 2% combined.

OTHER AGENCY INVOLVEMENT/IMPACT

Staff from the Administrative Office, the Community Foundation, and County Counsel worked to develop Amendment No. 2. The Community Foundation Board of Directors approved the amendment at their January 8, 2014 board meeting.

FINANCIAL CONSIDERATIONS

There is no financial impact to the County as the result of this Amendment No. 2. The third party investment management fee would be charged up to 1% of the market value of the Preventive Health Endowment fund. Currently the Community Foundation's investment pool is charged at the rate of .65%.

As of December 31, 2012, there was \$2,370,400 in the Preventive Health Endowment. Since 2006, a total of \$701,110 has been granted for preventive health programs and projects per Section 5(c) of the original agreement. No financial information for 2013 was available at the time of the writing of this staff report.

RESULTS

Approval of Amendment No. 2 to the Preventive Health Endowment will allow the Community Foundation to charge a third party investment management fee up to 1% (currently charged at .65%). This action will redirect more of the administrative fee to the management of the preventive health grant program.

ATTACHMENTS

1. Amendment No. 2 to the Preventive Health Endowment agreement